

Message Text

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INFO OCT-01 ISO-00 EB-07 OPIC-03 XMB-02 PA-01 PRS-01 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 /099 W

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R 202249Z JUN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 9182

INFO AMEMBASSY PORT OF SPAIN

AMCONSUL CURACAO

LIMITED OFFICIAL USE SECTION 1 OF 2 CARACAS 6404

E.O. 11652: N/A

TAGS: ENRG PINT VE

SUBJECT: POLITICAL STALEMATE OVER OIL NATIONALIZATION

REF: CARACAS 6154

BEGIN LIMITED OFFICIAL USE. BEGIN SUMMARY. THIS WEEK BROUGHT A POLITICAL STALEMATE IN THE CONSIDERATION OF THE PETROLEUM NATIONALIZATION LEGISLATION AS AD AND COPEI WERE UNABLE TO WORK OUT A COMPROMISE OVER THE CONTROVERSIAL ARTICLE 5 OF THE NATIONALIZATION BILL. THE OTHER POLITICAL PARTIES ALSO REJECTED ANY COMPROMISE. COPEI MAY SHIFT ATTENTION TO THE POST-NATIONALIZATION STRUCTURE OF THE OIL INDUSTRY, WHICH HAS HITHERTO BEEN NEGLECTED IN DEBATE AS WELL AS BY THE GOV PLANNERS. END SUMMARY. END LIMITED OFFICIAL USE.

1. BEGIN UNCLASSIFIED. THE ALL-PARTY MEETING TO SEARCH FOR CONSENSUS ON PETROLEUM NATIONALIZATION PROPOSED LAST WEEK BY FORMER PRESIDENT CALDERA TOOK PLACE JUNE 16 WITH MOST OF LIMITED OFFICIAL USE

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THE COUNTRY'S POLITICAL LEADERS PRESENT (NEITHER CALDERA NOR

PRESIDENT PEREZ ATTENDED, HOWEVER). PRO VENEZUELA PRESIDENT REINALDO CERVINI PUT FORWARD A COMPROMISE PROPOSAL FOR THE FUTURE PARTICIPATION OF PRIVATE AND FOREIGN INTERESTS IN THE NATIONALIZED PETROLEUM INDUSTRY, CONSISTING OF NEW DRAFTS OF ARTICLES 5 AND 6 OF THE OIL NATIONALIZATION BILL AND INCLUDING A PROVISION ALLOWING THE STATE TO ENTER INTO MIXED ENTERPRISES IN THE OIL INDUSTRY PROVIDED THE CONGRESS FIRST APPROVED EACH ASSOCIATION AGREEMENT BY A TWO-THIRDS MAJORITY VOTE. THIS PROPOSAL LEFT THE EXPLOITATION OF OIL RESERVES EXCLUSIVELY TO THE STATE. AT THE END OF THE THREE-HOUR SESSION THE FIVE MINOR PARTIES, MEP, URD, MAS, PCV, AND MIR, ANNOUNCED THEIR REJECTION OF THE PROPOSED COMPROMISE. THE TWO MAJOR PARTIES, THE GOVERNING AD AND THE OPPOSITION COPEI, INDICATED THEY WISHED TO STUDY THE PROPOSAL FURTHER.

2. ON JUNE 17, COPEI ANNOUNCED ITS REJECTION OF CERVINI'S COMPROMISE PROPOSAL. ACTING COPEI PRESIDENT GODOFREDO GONZALEZ REITERATED THE NEED FOR NATIONALIZING PETROLEUM BUT STATED THAT NATIONALIZATION SHOULD BE "INTEGRATED AND AUTHENTIC." GONZALEZ SAID THE NATIONALIZED INDUSTRY SHOULD BE COMPLETELY CONTROLLED AND ADMINISTERED BY THE STATE AND, THEREFORE, COPEI WOULD CONTINUE TO OPPOSE CREATION OF MIXED ENTERPRISES IN BASIC AREAS OF THE INDUSTRY. GONZALEZ WARNED THAT THE PARTICIPATION OF FOREIGN CAPITAL IS INCONSISTENT WITH THE BASIC GOALS OF AN INDEPENDENT PETROLEUM POLICY. ACCUSING THE GOVERNMENT OF DIVIDING THE COUNTRY ON THE NATIONALIZATION QUESTION, GONZALEZ REPEATED COPEI'S SUPPORT FOR THE MECHANISM OF OPERATING CONTRACTS WITH PRIVATE INTERESTS AS PUT FORWARD BY THE PRESIDENTIAL OIL REVERSION COMMISSION LAST YEAR SINCE SUCH ARRANGEMENTS WOULD ALLOW FOR THE TRANSFER OF TECHNOLOGY AND ASSISTANCE IN THE OPERATION OF THE INDUSTRY.

3. THE CERVINI PROPOSAL WAS BURIED FOR GOOD ON JUNE 18 WHEN GONZALO BARRIOS, PRESIDENT OF THE AD PARTY, RESPONDED TO COPEI. BARRIOS SAID THERE WAS NO POINT FOR AD TO CONTINUE STUDYING THE PROPOSED COMPROMISE SINCE COPEI HAD REJECTED IT. BARRIOS DECLARED THAT AD'S IS THE ONLY POSITION WHICH CAN ACHIEVE A GENERAL CONSENSUS. AD'S POSITION, BARRIOS MAINTAINED, TAKES INTO ACCOUNT THE CONCERNS OF THOSE WHO REJECT MIXED ENTERPRISES AND OF OTHERS ABOUT RISKING NATIONAL PROSPERITY.

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BARRIOS ADDED THERE WILL "ALMOST CERTAINLY" BE A TEMPORARY REDUCTION IN PETROLEUM INCOME ARISING FROM INEVITABLE PROBLEMS AFTER NATIONALIZATION BUT THAT IT WOULD NOT BE "CATASTROPHIC." SUCH PROBLEMS ARE MOST LIKELY IN THE AREA OF FOREIGN MARKETING WHERE VENEZUELA WOULD BE "MORE EXPOSED TO ADVERSE MANEUVERS BY DISPLACED INTERESTS WHO HAVE IN MIND A POSSIBLE RECOVERY OF THEIR POSITIONS," HE SAID.

4. A MEETING BETWEEN FORMER PRESIDENTS BETANCOURT AND CALDERA AT A JUNE 19 LUNCHEON APPARENTLY DID NOT HELP BREAK THE POLITICAL IMPASSE ON NATIONALIZATION. BETANCOURT REFUSED TO COMMENT ON THE MEETING. CALDERA INDICATED THAT HE WILL SPEAK DURING THE SENATE DEBATE ON THE NATIONALIZATION BILL.

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5. ALSO THIS WEEK FIVE DEPUTIES WHO TRAVELED TO THE MIDDLE EAST IN APRIL TO OBSERVE NATIONALIZED PETROLEUM INDUSTRIES IN SEVERAL OPEC COUNTRIES PRESENTED A REPORT TO THE CONGRESS. THE REPORT NOTED THAT ALL THE COUNTRIES VISITED UTILIZE SERVICE CONTRACTS AS WELL AS MIXED ENTERPRISES IN THE OPERATION OF THEIR NATIONALIZED INDUSTRIES.

6. DEBATE OF THE PETROLEUM NATIONALIZATION BILL HAS ENTERED ITS THIRD WEEK IN THE CHAMBER OF DEPUTIES. THE PROCEDURE HAS BEEN FOR A REPRESENTATIVE OF EACH PARTY TO SPEAK IN ROTATION SO THAT EACH PARTY'S POSITION HAS NOW BEEN STATED AT LEAST THREE TIMES. AN INDEPENDENT DEPUTY HAS URGED THE CHAMBER TO SPEED UP ITS DELIBERATIONS, AS EACH HOUR OF DEBATE PURPORTEDLY COSTS THE NATION BS 29 MILLION IN LOST OIL REVENUE. CHAMBER

PRESIDENT ALVAREZ PAZ SUBSEQUENTLY ANNOUNCED THAT THERE WILL BE A VOTE ON ARTICLE ONE OF THE BILL ON JUNE 23. END UNCLASSIFIED.

6. BEGIN LIMITED OFFICIAL USE. COMMENT. EARLIER HOPES FOR REACHING A NATIONAL POLITICAL CONSENSUS ON THE OIL NATIONALI-LIMITED OFFICIAL USE

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ZATION BILL SEEM DEAD. AN INDUSTRY SOURCE TOLD POL COUNSELOR JUNE 19 THAT COPEI INTENDS TO FOCUS POLITICAL ATTENTION ON THE QUESTION OF THE ACTUAL STRUCTURE OF THE NATIONALIZED PETROLEUM INDUSTRY, A MATTER HITHERTO LARGELY OBSCURED BY THE DEBATE OVER ARTICLE 5. ACCORDING TO THIS SOURCE, AD IS UPSET AT THIS PROSPECT, SINCE THE MINISTRY OF MINES IS FAR SHORT OF COMPLETING PLANS FOR THE POST-NATIONALIZATION ORGANIZATIONAL STRUCTURE AND MANAGEMENT OF THE OIL INDUSTRY. AD IS HANDICAPPED BY THE PROTRACTED ABSENCE FROM THE COUNTRY OF MINES MINISTER HERNANDEZ AND THE ILLNESS OF ITS PRINCIPAL OIL EXPERT, ARTURO HERNANDEZ GRISANTI. SOURCE PREDICTED THAT THE DEPUTIES WILL REFER THE NATIONALIZATION BILL BACK TO COMMITTEE BEFORE IT IS SENT TO THE SENATE WHERE, HE BELIEVES, IT WILL ALSO BE REFERRED BACK TO COMMITTEE BEFORE PASSAGE, WHICH HE DOES NOT EXPECT BEFORE MID-JULY AT THE EARLIEST.
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